

Northair Mines Ltd.
Annual Report 1980

Contents

Highlights	1
President's Message	2
Report on Operations	6
Financial Statements	7
Notes to Financial Statements	10
Auditors' Report	11
Corporate Information	12

Year's Highlights

- Net earnings up 22% to \$2,294,367 or \$0.42 per share.
- Northair announces decision to put Scottie Gold property into production.
- Working capital exceeds \$3.8 million.
- Cash flow exceeds \$1 per share fully diluted for first time in company history.
- Investments costing \$800,000 worth \$3.5 million by year-end.

Northair Mines Ltd. Annual Report 1980

President's Message

For your Company, and the industry in general, the past 12 months have been eventful ones indeed.

Amid a wildly fluctuating marketplace for gold and silver, Northair enjoyed its most rewarding financial year to date. Even more satisfying were the encouraging developments in Northair's other property interests, highlighted by the production decision made on the Scottie Gold property.

It was, in short, an exciting and profitable year for your Company.

Net earnings hit an all-time high of \$2,294,367 or \$0.42 per share on production revenue of \$12,256,296. By year-end, working capital exceeded \$3.8 million and cash flow topped \$1 per share fully diluted.

However, the good news cannot obscure the fact the past year failed to produce more proven reserves at the Northair Mine. As of February 29, 1980 ore reserves in all categories totalled 110,812 tons grading .26 oz. gold per ton, 1.01 oz. silver per ton, 2.66% lead and 3.84% zinc. That news, though disappointing, could soon change as extensive diamond drilling continues. But because of the ore reserve situation, and your Company's financial commitment to the development of other properties to ensure future growth, the directors have decided to suspend dividend payments.

Nonetheless, prospects are bright for the future as your Company comes off a year of outstanding progress both in the field and in efforts to raise capital for the other companies and properties it manages:

Scottie Gold Mines Ltd.

News from this property near Stewart, B.C. was dramatic on two counts. Firstly, by December 1979, ore reserves in all categories were estimated at 250,000 tons grading .633 oz. of gold and a decision was made to proceed to production. Secondly, considerable progress was made towards raising the funds necessary to bring about that production.

On May 14, 1980 it was announced \$1.75 million was realized through the private sale, subject to regulatory approval, of 250,000 Class A common shares of Scottie Gold to TRV Minerals Corp. and 100,000 to Northair.

In addition to its management agreement and right of first refusal on future financing, Northair now owns 18.6% of Scottie while TRV has gained an 8.77% interest. With \$836,000 of existing working capital and a \$1 million loan guaranteed by Northair (if required), the total capital available to Scottie comes to \$3.6 million.

The final feasibility study is due for completion shortly and production is targeted to begin in May 1981.

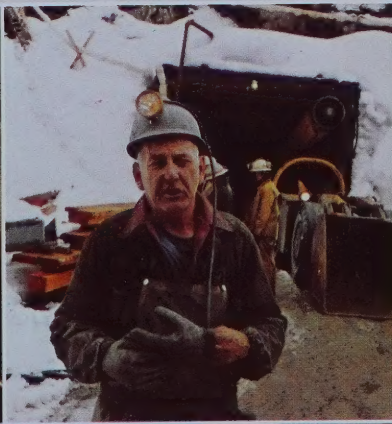
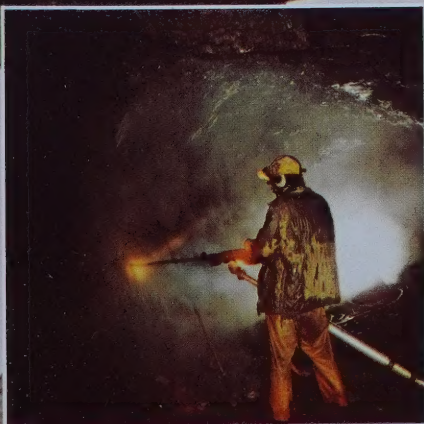
Bully Hill

Northair holds a 97% interest in this Redding, California property which has drill-indicated and probable ore reserves of 485,000 tons grading 0.2 oz. gold per ton, 4.5 oz. silver per ton, 2.5% copper, 4.0% lead and 10% zinc. This year, \$50,000 will be spent on an environmental study prior to exploration drilling.

Newhawk Gold Mines Ltd.

Your Company entered a 50 - 50 joint venture agreement with Newhawk on its very promising Hawk claims near Nuttlude Lake, B.C.

The \$225,000 expended by Northair to earn a 50% interest enabled development to continue on the property. The \$488,478 field program entailed road work, 73 metres of tunnelling, geological



mapping and sampling. Financing of the 1980 program has been arranged and awaits regulatory approval.

Consolidated Silver Ridge Mines Ltd. (N.P.L.)

The Red Dog claims near Nuttlude Lake, B.C. are held under option by Consolidated Silver Ridge. Following a successful 1979 exploration program, Northair has moved to acquire interest in the claims. The agreement between C.S.R. and Northair, subject to regulatory approval, would see Northair earn a 20% working interest from the expenditure of \$236,000 with the possibility of earning a further 10% working interest. The bulk of that sum would be a \$200,000 expenditure towards the proposed \$686,000 1980 field program.

Brandy Resources Inc.

A new public company 21.37% owned by Northair, Brandy recently announced commencement of a \$900,000 exploration and development program on its silver property in the Brandywine Creek Valley near Squamish.

Collaring of a 600-ft. adit to the silver-bearing zone began May 1, 1980 and drilling is scheduled to begin June 15. Because the property adjoins the Northair Mine site the feasibility of production is greatly enhanced by the accessibility of the Northair mill for the processing of Brandy ore.

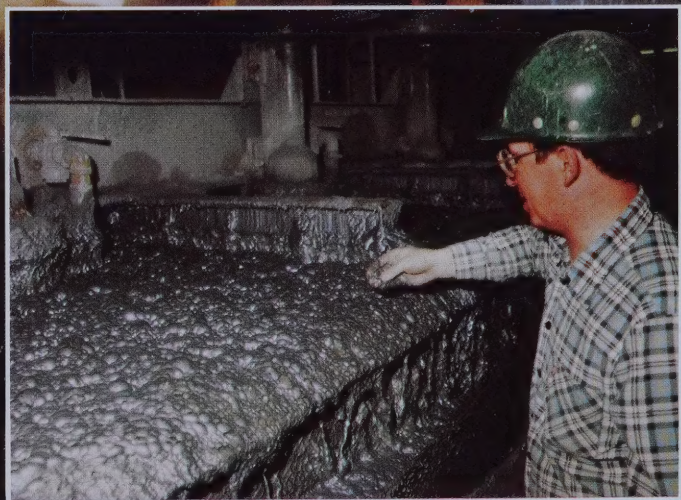
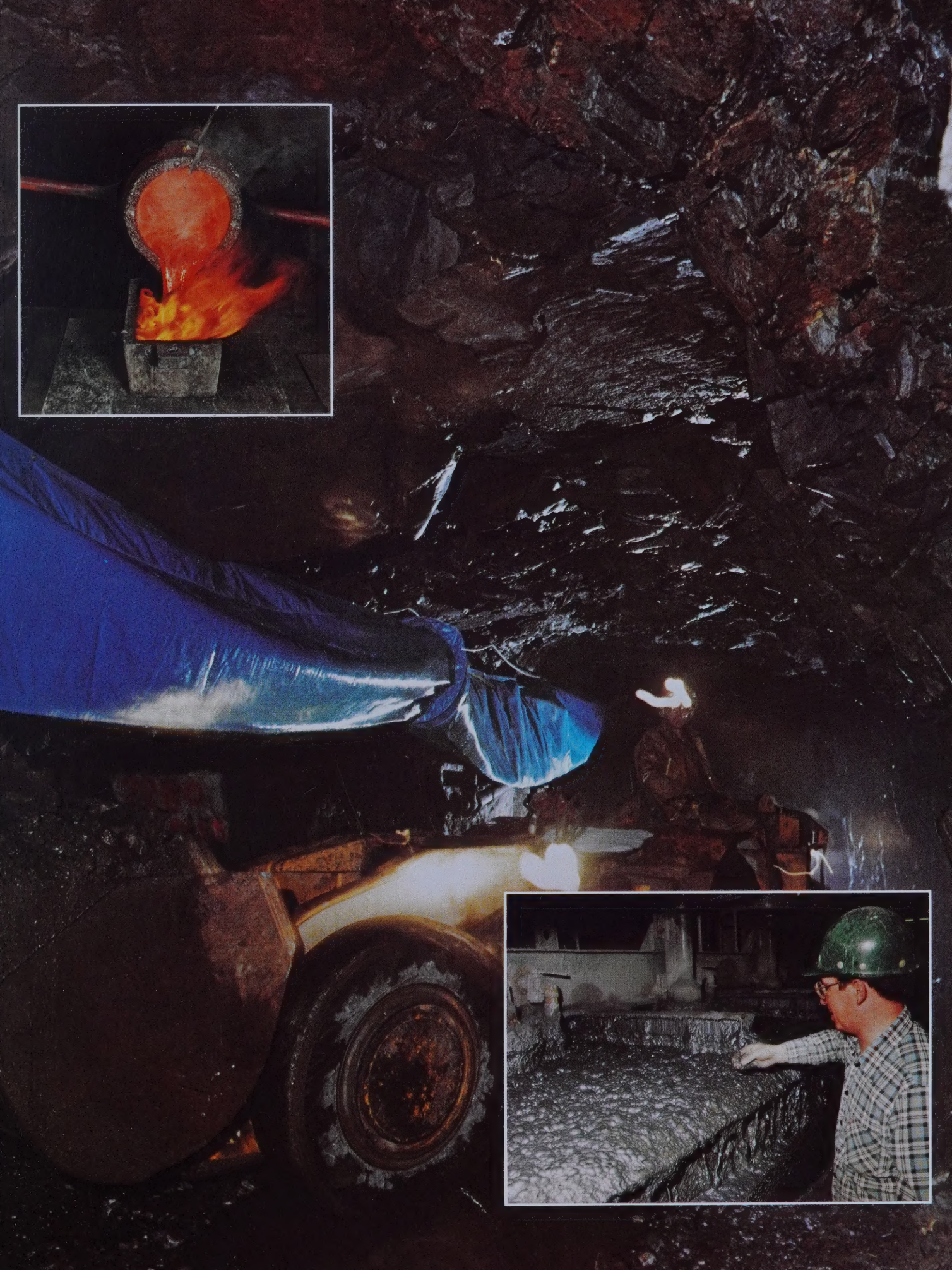
According to many observers, the future will bring a stronger, more stable market for gold, thus ensuring years of profitable operation at the Northair Mine, should new ore be found. But the high level of successful activity in your Company's other interests is evidence of management's efforts to broaden the operations base. In its years of operation, Northair has acquired invaluable assets in terms of equipment, staff, and operational know-how — assets that will serve us well in developing

other properties. It is, then, in the "Northair Group of Companies" — with the Northair Mine as its foundation — that we look ahead with so much confidence.

I would like to thank the staff for its contribution to a very prosperous year and to the shareholders also go my thanks for their support. I look for your continued support in the years of growth ahead.

On behalf of the Board,

Donald A. McLeod
President



Report on Operations

Total revenue from production was \$12,256,296 after smelting, freight, and handling charges. This was derived from the treatment of 97,344 tons of ore grading 0.30 ozs. gold per ton, 0.51 ozs. silver per ton, 0.82% lead and 1.29% zinc.

Metal Recovery Statistics

	Fourth Quarter ended Feb. 29, 1980	Year ended Feb. 28, 1979	Year ended Feb. 29, 1980
Tons Milled	19,222	103,218	97,344
Gold Recovery	93.50%	93.15%	93.71%
Silver Recovery	91.89%	85.63%	87.42%
Lead Recovery	92.22%	91.62%	87.10%
Zinc Recovery	83.11%	83.76%	79.15%

Average daily mill tonnage was 311 with the concentrator operating a total of 313 days. Total throughput and working days decreased due to the scheduled annual vacation shutdown and the implementation of a five day per week milling schedule. Changes made in the concentrator in late 1978 and early 1979 allowed for the increase in the average throughput. Recoveries were up slightly for gold and silver while lead and zinc showed a decline.

Average net prices received for metals during the year were: gold \$383.41 per troy ounce; silver \$15.36 per troy ounce; lead 43¢ per pound; and zinc 25¢ per pound.

Direct costs to produce an ounce of gold and silver were: \$141.30 and \$5.66 respectively.

Metals Recovered and Paid for from Production

	Tons	Troy oz. Gold	Troy oz. Silver	Lbs. Lead	Lbs. Zinc
Gold/Silver Bullion ..	—	15,434.46	8,347.83	—	—
Lead Con- centrates .	1932	11,189.62	30,864.52	1,355,716	331,421
Zinc Con- centrates .	1837	543.33	4,020.52	41,259	1,652,893
TOTALS .	3769	27,167.41	43,232.87	1,396,975	1,984,314

Total diluted ore reserves as calculated by mine engineering staff as at February 29, 1980 from all categories were:

	Gold	Silver	Lead	Zinc
Tons	Oz/Ton	Oz/Ton	%	%
110.812	0.26	1.01	2.66	3.84

The foregoing does not include material from below the 2800 elevation as it is felt that going below this level is uneconomic at this time.

Development footage figures were: drifting and cross-cutting — 2,514; raising — 2,981; sub-drifting — 2,524. The greatest percentage of this was done between the 2800 and 3250 levels on the Warman Zone. At year-end, steps were taken to speed up the drifting to the Discovery Zone which had commenced during the year.

Costs per ton of ore milled for the various categories were: operating costs, including indirect and administration — \$53.80; on-property exploration — \$11.10; for a total cost of \$64.90. In addition, a total of \$312,650 was spent on outside exploration, amounting to a cost of \$3.21 per ton milled.

The year's underground diamond drilling totalled 27,222 feet and examined the Warman Zone above and below the 2800 level. Surface drilling to examine selected targets on the Manifold, Warman, "C" and Discovery Zones amounted to 32,511 feet.

After a lengthy negotiation period and several sessions with a mediator in attendance, the Company and U.S.W.A. Local 8553 reached agreement on January 19, 1980. Expiring December 31, 1981, the agreement puts the hourly-paid employees' wages and benefits well up on the mining industry scale.

As shown in the table, ore reserves have diminished approximately the amount milled for the year. Consequently, a sizeable program of surface diamond drilling to examine the footwall of the mine for a distance of some 2,500 feet out from the present workings began in late March 1980. To date, the program's results have been inconclusive.

Further geophysical work has been carried out north and east of the Discovery Zone. While a full report is not in, a target is indicated, and drilling is planned for the zone.

Studies were indicated during the year to find potential properties within some 70 - 80 miles that could be examined and possibly mined on a small scale and milled at the existing plant. An exploration program has commenced on one such property and it is felt that others will be found and examined in the next few months.

M. P. Dickson, P.Eng.
Vice President of Operations

Northair Mines Ltd.

Balance Sheet

As at 29 February 1980

(With comparative figures as at 28 February 1979)

Assets	1980	1979
Current		
Cash and short term bank deposits	\$ 3,117,140	\$ 845,131
Concentrate settlements receivable	1,789,170	990,796
Concentrate inventory	620,740	143,456
Supplies and sundry accounts receivable	75,921	265,054
	<u>5,602,971</u>	<u>2,244,437</u>
Investments (Note 2)	802,453	52,381
Property, Plant and Equipment		
Plant and equipment, at cost	5,746,901	5,497,488
Less — Accumulated depreciation	4,530,614	3,363,077
	<u>1,216,287</u>	<u>2,134,411</u>
Mineral rights and deferred costs (Note 3)	1,408,911	2,778,529
	<u>2,625,198</u>	<u>4,912,940</u>
Other	67,898	69,461
	<u>\$ 9,098,520</u>	<u>\$ 7,279,219</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 826,400	\$ 598,624
Income and mining taxes payable	815,861	
Deferred income and mining taxes	135,430	
	<u>1,777,691</u>	<u>598,624</u>
Deferred Income and Mining Taxes	729,100	1,091,080
	<u>2,506,791</u>	<u>1,689,704</u>
Shareholders' Equity		
Share Capital (Note 4)	4,135,764	3,782,134
Contributed Surplus	116,448	116,448
Retained Earnings	2,339,517	1,690,933
	<u>6,591,729</u>	<u>5,589,515</u>
	<u>\$ 9,098,520</u>	<u>\$ 7,279,219</u>

Approved on behalf of the Board:

D.A. McLeod, Director

John E. Millette, Director

Northair Mines Ltd.

Statement of Income

Year ended 29 February 1980

(With comparative figures for 1979)

Income	1980	1979
Production	<u>\$12,256,296</u>	<u>\$ 9,833,669</u>
Operating Costs		
Direct		
Exploration — Northair property	1,080,318	80,787
— Outside property	312,650	
Mining and short term development	3,502,707	2,557,333
Milling	1,014,047	959,934
Indirect		
Mine general and surface	520,771	673,531
Administration	432,680	374,666
Interest	(233,453)	146,581
	<u>6,629,720</u>	<u>4,792,832</u>
Income, before depletion, depreciation and taxes on income	<u>5,626,576</u>	<u>5,040,837</u>
Depletion	1,387,083	1,287,229
Depreciation	1,171,554	987,282
	<u>2,558,637</u>	<u>2,274,511</u>
Income, before taxes thereon	<u>3,067,939</u>	<u>2,766,326</u>
Income and Mining Taxes		
Current	1,000,122	
Deferred	(226,550)	891,330
	<u>773,572</u>	<u>891,330</u>
Net Income	<u>\$ 2,294,367</u>	<u>\$ 1,874,996</u>
Basic Earnings Per Share	<u>\$ 0.42</u>	<u>\$ 0.35</u>

Statement of Retained Earnings

Year ended 29 February 1980

(With comparative figures for 1979)

Balance, beginning of year	\$ 1,690,933	\$ (184,063)
Net income for the year	2,294,367	1,874,996
Dividends paid	(1,645,783)	
Balance as at 29 February	<u>\$ 2,339,517</u>	<u>\$ 1,690,933</u>

Statement of Changes in Financial Position

Year ended 29 February 1980

(With comparative figures for 1979)

	1980	1979
Source of Funds		
From operations		
Net income for the year	\$ 2,294,367	\$ 1,874,996
Adjustment for items not affecting working capital:		
Depletion	1,387,083	1,287,229
Depreciation	1,171,554	987,282
Deferred income taxes	(361,980)	891,330
	<u>4,491,024</u>	<u>5,040,837</u>
Share capital	353,630	474,195
Disposal of plant and equipment	24,200	17,420
Other assets — net	<u>1,563</u>	<u> </u>
	<u><u>4,870,417</u></u>	<u><u>5,532,452</u></u>
Application of Funds		
Dividends	1,645,783	
Investments	750,072	
Plant and equipment	277,630	272,883
Mineral rights	17,465	
Deferred development costs		1,668,171
Long term debt		721,297
Other assets — net		45,338
	<u>2,690,950</u>	<u>2,707,689</u>
Increase in Working Capital	<u>2,179,467</u>	<u>2,824,763</u>
Working capital (deficit), beginning of year	<u>1,645,813</u>	<u>(1,178,950)</u>
Working Capital — 29 February	<u><u>\$ 3,825,280</u></u>	<u><u>\$ 1,645,813</u></u>

Schedule of Administrative Costs

Year ended 29 February 1980

(With comparative figures for 1979)

	1980	1979
Management and office salaries	\$ 152,325	\$ 159,704
Travel, conference and promotion	71,998	54,561
Office and telephone	69,076	45,060
Taxes and licences	39,319	60,835
Accounting, audit and legal	27,812	28,929
First aid and medical	18,137	16,237
Donations	16,802	860
Transfer agent fees	9,863	6,507
Shareholders' information and meetings	9,847	5,436
Royalty refund		(9,962)
Sundry	17,501	6,499
	<u>\$ 432,680</u>	<u>\$ 374,666</u>

Notes to Financial Statements

29 February 1980

1. Significant Accounting Policies

Concentrate Settlements Receivable and Concentrate Inventories

Concentrate settlements receivable and concentrate inventories are recorded at estimated net realizable value which is based on the most current information available with regards to weight, assays, metal prices and foreign exchange. In accordance with the terms of the sales contracts, final settlements are made at prices prevailing at a future date and the amounts eventually received by the company may vary from the amounts shown.

Mineral Rights and Deferred Costs

Mineral rights and deferred costs are carried at cost less depletion recorded to date. They are not intended to reflect present or future values.

Depletion of these costs is being provided on a unit of production method based on estimated recoverable reserves.

Depreciation

With the exception of mobile equipment, depreciation of all plant and equipment is being provided on a unit of production method based on estimated recoverable reserves. Mobile equipment is being depreciated at the rate of 30% per annum on a reducing balance basis.

Income and Mining Taxes

The company records income and mining taxes on the tax allocation basis. Differences in

amounts reported for tax purposes and accounting purposes result in deferred income and mining taxes which are shown separately in the statement of income and balance sheet. Deferred income taxes relate primarily to the concentrate inventory and depreciation and depletion of property, plant and equipment. Investment tax credits reduce the current year's charge for income taxes.

Comparative Figures

Where necessary the figures shown for 1979 have been restated in order to conform with the classifications used for 1980.

2. Investments

As at 29 February 1980 the company held the following investments:

	Book Value	Market Value
400,000 shares — Scottie Gold Mines Ltd.	\$ 720,000	\$3,360,000
80,200 shares — Consolidated Silver Ridge Mines Ltd. (N.P.L.)	66,624	112,000
100,000 shares — Brandy Resources Inc.	10,000	—
Sundry	5,829	13,000
	<u>\$ 802,453</u>	<u>\$3,485,000</u>

3. Mineral Rights and Deferred Costs

	1980	1979
Balance, beginning of year	\$2,778,529	\$2,397,587
Expenditures capitalized during year	17,465	1,668,171
	<u>2,795,994</u>	<u>4,065,758</u>
Depletion charged to operating costs	1,387,083	1,287,229
Balance — 29 February	<u>\$1,408,911</u>	<u>\$2,778,529</u>

4. Share Capital

- (a) By special resolution passed at a meeting of the shareholders on 28 June 1979 the authorized share capital was increased from 6,000,000 to 8,000,000 shares of no par value. At the same time the company was changed from a specially limited company into a limited company and changed its name by dropping the initials "(N.P.L.)".
- (b) During the year ended 29 February 1980 there were 177,000 shares issued from treasury for cash in the amount of \$353,630.
- (c) Details of the shares issued and outstanding are as follows:

	Shares	\$
Issued for cash	4,341,900	\$3,720,899
Issued for rights	<u>1,177,500</u>	<u>414,865</u>
	<u>5,519,400</u>	<u>\$4,135,764</u>

- (d) As at 29 February 1980 there were 86,000 share purchase warrants outstanding that are exercisable during the period ended 12 January 1982 at \$2.00 per share.

5. Statutory Information

During the year 1 March 1979 to 29 February 1980, \$224,168 was paid or credited to six directors and senior officers as defined in the B.C. Companies Act (three of the six so defined are mine personnel). Other than the foregoing, no remuneration has been paid to any director or senior officer.

6. Joint Venture Agreement

By agreement dated 29 August 1979 the company acquired a 50% interest in certain mineral claims from Newhawk Gold Mines Ltd. (N.P.L.). Under the terms of the agreement each of the parties shall contribute equally to all expenditures incurred in connection with the claims. If one of the parties should fail to contribute, its interest shall be reduced by 10% for each \$100,000 not contributed provided that neither party's interest shall be reduced to less than a 20% carried interest.

Auditors' Report

To the Shareholders of
Northair Mines Ltd.

We have examined the balance sheet of Northair Mines Ltd. as at 29 February 1980 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at 29 February 1980 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

12 May 1980

Smith, Flynn, Staley
Chartered Accountants

Corporate Information

Directors

D. A. McLeod
J. E. Millette
V. B. Humphrey
A. H. Manifold
J. B. Magee

Officers

D. A. McLeod, President
J. E. Millette, Vice President
M. Syniuk, Secretary
M. P. Dickson, P. Eng.,
Vice President of Operations

Head Office

#333 - 885 Dunsmuir St.
Vancouver, B.C.
V6C 1N5

Operating

H. Skoglund, Resident Manager
W. M. Ash, P. Eng., Manager of Engineering
J. G. B. Michell, P. Eng., Chief Engineer
J. Sterndale-Bennett, Mill Superintendent
H. R. Scheerschmidt, Plant Superintendent

Mine Office

P.O. Box 2029
Squamish, B.C.
V0N 3G0

Solicitors

Boughton & Co.
#600 - 890 W. Pender St.
Vancouver, B.C.

Records Office

#600 - 890 W. Pender St.
Vancouver, B.C.

Auditors

Smith, Flynn, Staley
Chartered Accountants
#225 - 4299 Canada Way
Burnaby, B.C.

Bankers

The Royal Bank of Canada
Main Branch — Royal Centre
1025 W. Georgia St.
Vancouver, B.C.

Share Listings

Vancouver Stock Exchange
536 Howe St.
Vancouver, B.C.
NASDAQ, INC.
(National-Over-The-Counter-List)
#1325 - 17 Battery Place
New York, N.Y., U.S.A. 10004

Transfer Agent

The Canada Trust Co. Limited
901 W. Pender St.
Vancouver, B.C.

Northair Mines Ltd.

2.3%

16%

21.37%

50%

97%

BULLY HILL PROPERTY
Redding, California

HAWK CLAIMS
Nuttluke Lake, B.C.
50 - 50 Joint Venture with
Newhawk Gold Mines Ltd.

BRANDY RESOURCES INC.

SCOTTIE GOLD MINES LTD.

CONSOLIDATED SILVER RIDGE MINES LTD. (N.P.L.)
Nuttluke Lake, B.C.
Management & engineering agreement
First refusal on future financing

